

**Before the International Trade Commission
Metal Calendar Slides from Japan
Investigation No.: 731-TA-1094 (Final)**

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Good morning. My name is Andrew Szamosszegi. I am a managing consultant at Capital Trade Incorporated.

This is a very interesting case. It presents some analytical issues that, while not unique in isolation, may be unique in combination. It is not unusual for respondents to denigrate a petitioners' quality. But, it is interesting that only one respondent is here complaining. It is not unusual for a petitioner to have operations outside the United States. In this case, there is strong evidence that the subject imports were responsible for the decision to shift some U.S. productive assets to Mexico. Few producers of manufactured goods that seek relief from unfairly traded imports are significant exporters. But Stuebing is. Respondents have taken these factual elements and woven a web of factual and economic arguments that mischaracterize Stuebing's product, business motives, and export activity, with one outcome in mind: To make this Commission believe that the material injury of the last three years has nothing to do with a large increase in dumped imports.

It is easy, given the factors at work here, to miss the forest for the trees. If the Commission focuses on the traditional statutory factors in the context of the business cycle, it will find an industry that is injured by reason of subject imports and threatened with further injury. The facts on this front are compelling, which is why the respondents are focusing so heavily on such issues as Stuebing's exports, the Mexican facility, and alleged quality deficiencies.

My goal today is to describe the forest that respondents have tried their best to obscure.

Point number one: Imports of the subject merchandise have increased absolutely and relative to U.S. consumption. The actual numbers involved are confidential, but there is enough information in the public record to make these points clearly in a public setting. Prior to 2003, there were no subject imports and no Mexican facility. Subject merchandise appeared in 2003 and then peaked in during July-to-December of 2005, the final six-month period of the investigation. By definition, the onset of the imports from Japan in 2003 reduced Stuebing's market share that year. The purchaser of those imports was Norwood, Stuebing's largest customer and the dominant player in the promotional calendar industry. Stuebing's market share declined again in 2004 and declined again in 2005 as Norwood relegated Stuebing to the filling custom orders. At the same time that Stuebing's market share was declining, the Staff report concludes that the market share of imports from Japan increased between 2003 and 2005. These trends occurred against a backdrop of demand that petitioners and respondents agree was strong and healthy. So, it is unambiguous that the subject merchandise increased in absolute terms and relative to apparent consumption.

So much for the import volume forest... What about the trees? There are two of them. First is that the antitrust tree. Norwood's brief urges the Commission to apply selectively the antitrust concepts of horizontal merger analysis to this investigation to reach a finding that the subject merchandise and the domestic like product are poor substitutes.

These concepts cited by Norwood are used by the DOJ and FTC to assess both product and geographic markets in the context of a proposed horizontal merger. We are not dealing with merger analysis here. When considering product markets, the antitrust authorities assess a much wider array of products than those considered in the Title VII world in which we are operating. The antitrust analysis advocated by Norwood is, simply put, ill suited for Title -VII investigations, which is why the Commission has its own analytical framework for assessing substitutability.

The Staff Report lays out the main factors that determine the degree of substitution between domestic and imported product in this investigation. They are relative prices, quality, and conditions of sale. The public record indicates that the lower-priced, subject merchandise displaced the domestic like product sold to the largest domestic producer of calendars over a period of two years, and that Norwood ordered and used calendars from both sources until after the filing of the petition. Regarding quality, the confidential Norwood information on Staff Report pages D-5 to D-8, including certain monthly data which Norwood now seeks to disavow, may be a useful annotation to the quality debate as it relates to substitutability. At any rate, the Staff's pre-hearing report concludes that the elasticity of substitution between the domestic and subject metal calendar slides is moderate.

The second tree on which respondents pin their hopes is non-subject imports. Norwood argues that the volume and market share losses experienced by the domestic industry are at the expense of non-subject imports that have not yet occurred. Think about that. In Bratsk, as even respondents note, the nonsubject imports were already in the market. Respondents acknowledge that was not the case here. The comparison with Bratsk is thus not appropriate. But let's look at this issue another way. If it had taken Norwood a year longer to locate a fairly trading foreign supplier who was not yet in the market, Stuebing would have experienced greater U.S. sales, greater market share, and greater profits than it actually did with Nishiyama dumping product in the market. This shows that the benefit of operating without the dumped product flows to Stuebing, not to the non-subject imports that do not exist. It follows, then, that the costs of dumping are also born by the U.S. industry, not by the phantom imports.

Respondents also argue that the existence of non-subject imports from Mexico precludes a finding that the volume of subject imports has been significant. To this, I have a four word answer: *Artists' Canvas from China*. In that investigation, the Commission found that the petitioner's move to Mexico was in reaction to the subject imports. That is definitely the case here. And, as with *Artists' Canvas*, the petitioner continues to produce in the United States.

In short, what Norwood characterizes as "twin obstacles" to a finding that imports are significant are not obstacles at all. Stuebing was over a period of approximately 2 years replaced at its largest customer by substitutable, dumped subject imports before any

nonsubject imports appeared in the United States. This increase in imports has indeed been significant.

Point number two: Price underselling by the subject merchandise has depressed prices and prevented Stuebing from raising prices to other customers even though costs have increased. Information on the significant level of underselling is laid out in the Staff Report and our brief. The margins generally exceed 35 percent and respondents do not contest these levels are significant. Mr. Blumberg has already described in detail how prices to Norwood were depressed. I will therefore summarize the portions of the record that confirm that Stuebing's prices were suppressed by the subject imports. First, Stuebing has experienced increasing costs-of-goods sold during the period of investigation. In addition to the questionnaire data that has been submitted, the Commission should consult the June 6 Declaration of Murray Blumberg, especially Exhibit 22. This is not novel. Everyone knows that steel prices have been generally trending higher. Stuebing has also been burdened by falling domestic sales volumes, which would, all things being equal, spread fixed manufacturing costs over a smaller revenue base. Second, Stuebing has not raised slide prices to any of its major customers since 2003. Supporting information is provided in the June 6 declaration's Exhibit 23. Third, Petitioner's data on COGS expressed as a share of net sales has been rising, an indication that its gross margin is being compressed.

Norwood argues, on the other hand, that there is no correlation between imports and domestic prices. First, Norwood presents data on pages 49 and 50 of its brief purporting to show that domestic prices were rising while subject imports were occurring. This comparison is simply not valid, for reasons that we will have to explain in a confidential submission. Second, Norwood argues on the basis of unit value comparisons that raw material and total cost-of-goods sold declined. Both the Staff report at VI-2 and Norwood at page 49 of its brief acknowledge that changes in product mix distort period-to-period comparisons of metal calendar slide data. Norwood's unit value analysis should be viewed in this light.

In short, as with import volume, respondent's arguments are not compelling: the record supports findings of price depression and price suppression by the subject imports.

Point number 3: The subject imports have had a material, adverse impact on the domestic industry producing metal calendar slides. The verified record indicates that the value of Stuebing's commercial shipments declined each year; that gross profits, operating income and net income all declined absolutely and as a share of sales. Capacity declined, yet capacity utilization remains low. Inventories rose while market share and return on investment fell. It is worth emphasizing again that these adverse trends occurred while domestic demand was healthy.

In the face of the link between rising imports and these adverse trends, Norwood argues that the domestic industry is rationalized and healthy. The basis for this argument is a per unit analysis that assumes away any impact of the subject imports by instead focusing on the profitability of the remaining sales. Post-hearing, we will present an analysis of the verified data that isolates the impact of the subject imports and demonstrates that respondent efforts to assume away the impact of the subject merchandise are dead wood -- extremely light and full of holes.

Respondents make much of Stuebing's exports and their impact on profitability. Stuebing's slides do fetch lower prices in some export markets than do its U.S. sales, and exports did increase in 2003 and 2004. But this export expansion was pursued in part to alleviate the adverse effects of declining domestic sales. Export gross profits were also influenced by the necessity to discount inventory that had been produced for Norwood on the basis of a blanket order. Thus, even export profits have been influenced by the subject merchandise.

The Commission has dealt with export industries before. *Magnesium Metal from China and Russia* offered a similar set of circumstances regarding the role played by dumped imports in forcing the domestic industry to expand its exports. Export AUVs in that investigation were insufficient to support a negative impact finding. The Commission also considered the impact of export on the performance of the domestic industry in *DRAMs and DRAM Modules from Korea*. The Commission recognized that increased exports played a positive role by allowing domestic producers to spread their fixed costs. The Commission also determined that although exports had a negative impact on profitability, they did not sever the causal link between imports and material injury. The same result is warranted here.

Respondents also assert that the reduction in domestic capacity that occurred when Stuebing moved some machinery to Mexico was compelled by factors other than imports. Mr. Blumberg has spoken to this point and provided information for the record. As I said in my opening, the link between the subject imports and the move to Mexico has been clearly established.

The last point of Respondent's impact analysis is that the domestic industry is now healthy due to the restructuring and is not materially injured. Mr. Blumberg has already spoken eloquently to this point. I will merely encourage the Commission to compare the U.S. industry of 2005 and 2006 with that that existed in 2002, when subject imports were nonexistent.

My final point today is that the record also supports an affirmative determination on threat. An important economic comparison for assessing threat is to compare the excess capacity of the producers in the subject country with the size of the U.S. market not currently held by the domestic industry. It is also useful to consider whether the foreign producer can produce at high capacity utilization rates, and the foreign producer's business model. Does the foreign producer seek to maximize output and hold high inventories, or does it follow another business model?

Indicators of the motives of the foreign producer as they relate to the U.S. market are another important consideration. Proprietary information provides useful insights into the mindset of the Nishiyama prior to the filing of the petition. In addition, Nishiyama's home market shipments declined from 2002 to 2005, which provided the means and motive for Nishiyama to expand into the U.S. market. This suggests another telling indicator of threat for the Commission to consider: exports to the United States as a percentage of Nishiyama's total shipments.

The Staff Report notes that Nishiyama's home market shipments are expected to remain at the 2005 level going forward. This opinion should be evaluated in light of long-term trends in home-market shipments and interim data. A continued shift in Japan

away from metal calendar slides would free up capacity, increasing the pressure on Nishiyama to increase shipments to the U.S. market.

All of these indicators point toward a grave threat to Stuebing's remaining U.S. production base, which still accounts for a meaningful share of the U.S. market, despite Norwood's attempt to imply otherwise.

In closing, I would like to take one more crack at the forest. Forget about export average unit values, the shift of production facilities to Mexico, the convenient timing of the flurry of Norwood's quality issues and focus on one question. Would Stuebing have been better off if it had continued to make sales to the largest domestic consumer of metal calendar slides instead of losing those sales to Nishiyama's dumped slides?

Thank you for your attention.